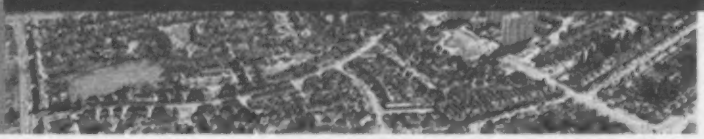
HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK

Thunder Bay CMA



Canada Mortgage and Housing Corporation

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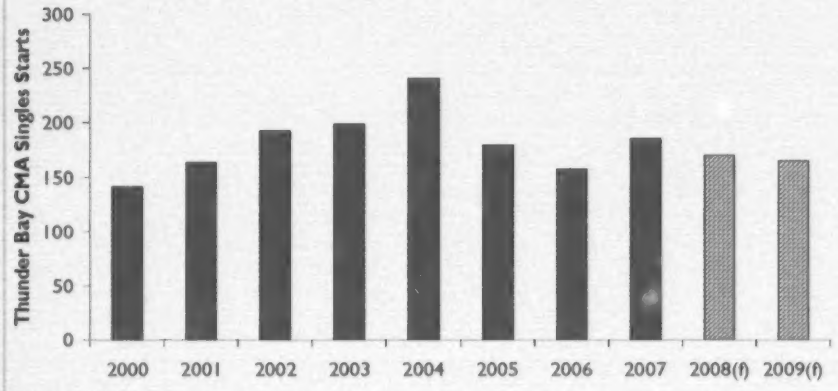
New Home Market

Thunder Bay's Single-Detached Starts Dipping

Single-detached home starts in Thunder Bay are expected to edge down eight per cent in 2008 to 170 units and a further 2.9 per cent in 2009 to 165 units. New housing construction activity recovered in 2007 but slowed significantly in the first quarter of 2008. With the Thunder Bay economy in a transitional phase, employment gains have not matched employment losses over the past four years resulting in weaker consumer confidence. This will act as a drag on housing starts. Semi-detached, apartment and condominium construction has been sporadic in recent years. We expect ten semi-detached and forty apart-

Figure 1

Thunder Bay Single Starts Begin Downward Trend



Source: CMHC

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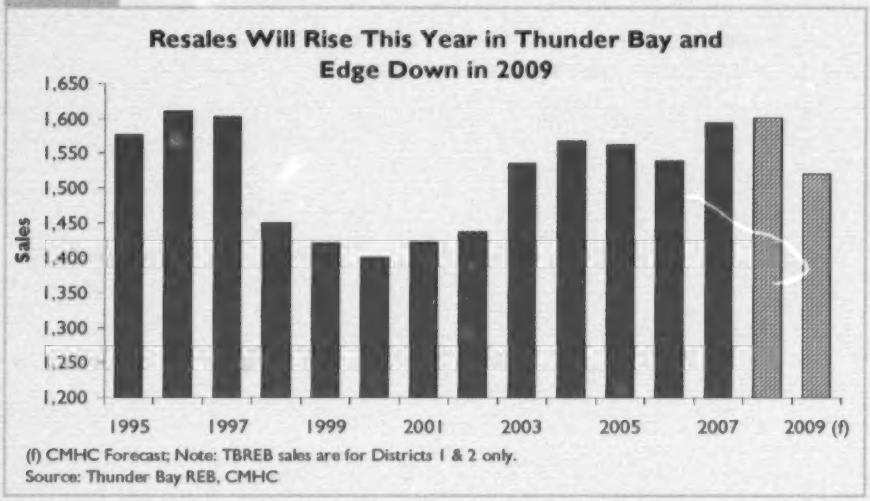
Figure 2



(f) CMHC Forecast; Note: TBREB sales are for Districts 1 & 2 only.
Source: Thunder Bay REB, CMHC

New listings across the Thunder Bay Real Estate Board territory were up 8.5 per cent year over year in the first quarter of 2008. Although employment growth will not be a very stimulative factor for the resale market, low interest rates and insufficient listings levels will provide enough fuel to spark a rise in average resale home values. Expect average prices to rise 2.0 per cent this year and 1.5 per cent in 2009. Thunder Bay's market should remain balanced in 2008 and 2009.

ment condominium units, both this year and next, to be built.

The Statistics Canada New House Price Index for Sudbury-Thunder Bay is reflecting strong demand for land and labour associated with the recent housing boom in Sudbury more so than Thunder Bay. Flat for several years, the index jumped 4.3 per cent in 2007 and is up another 6.5 per cent in to the end of February. This strength in this index is indicative of the strength in the Greater Sudbury market more so than Thunder Bay where the market continues to be much quieter.

Resale Market

A Low Level of Thunder Bay Listings Will Keep Prices Growing

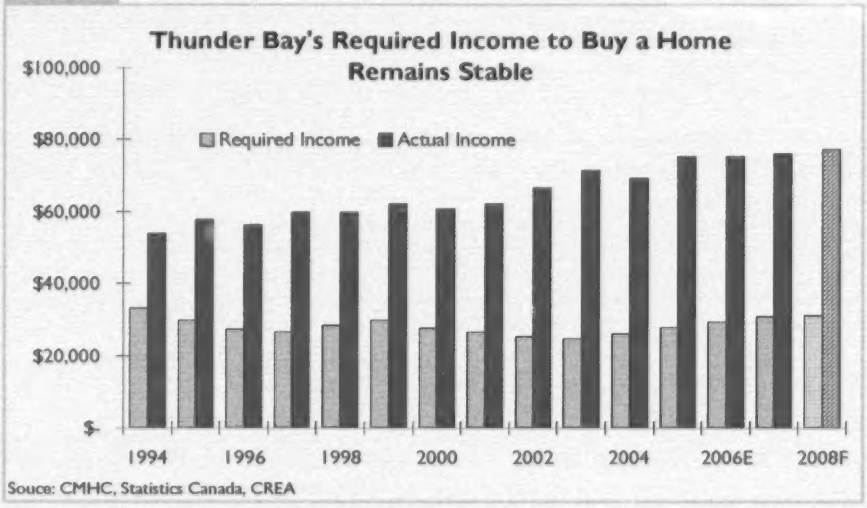
The surprisingly strong sales performance in 2007, coupled with scarce supply, was the main story in Thunder Bay's resale market. After rising 3.5 per cent in 2007, sales should rise a more modest 0.5 per cent in 2008 as resale housing continues to remain very affordable given Thunder Bay reasonable incomes and relatively low home prices. CMHC research indicates Thunder Bay is the most affordable market of eleven centres over 100,000 studied in Ontario. Sales will edge down by 5 per cent in 2009 to reach 1,520 sales. Slower employment growth will persist in 2008 and 2009 given the uncertain outlook for forest products.

Economic Trends

Thunder Bay Labour Market in Transition

Employment is expected to rise 2.5 per cent in 2008 with another modest increase in 2009 of 1.5 per cent. Employment has been recovering modestly since 2006. Labour force increases did not keep pace with employment gains last year leading to a slightly lower unemployment rate.

Figure 3



Souce: CMHC, Statistics Canada, CREA

Analysis of the Thunder Bay Labour Market using Statistics Canada data reveals a dramatic slide in employment in the goods producing sector since 1988; however, this sector contributes to a small percentage in Thunder Bay's total economy. On the other hand, the services-producing sector has shown growth. Within the services sector, specific examples of this growth include jobs in the education, government services and health sectors.

Thunder Bay is experiencing weakness in the forest products industry. High energy costs, a high Canadian dollar and a US housing sector in decline are hampering this key component of Thunder Bay's economy. Housing demand, especially on the new construction side, is being negatively impacted by the weakness in this traditionally important sector of the local economy.

Downtime continues at three dimensional lumber mills in Thunder Bay namely, Buchanan Northern Hardwoods, Northern Sawmills and Great West Timber. These mills when operating at full capacity, employ close to 1,000 workers. Despite consolidation in the forest product industry, lumber prices have yet to stabilize. Lumber prices are down nearly 25 per cent since 2002 and is a key reason for continued downtime at this three facilities. The consensus view is that lumber prices will not stabilize until 2009 when US housing markets are expected to bottom out.

There are some bright spots in the Thunder Bay local economy. Firstly, the start-up of the idled Cascades Fine Paper mill is one bright spot within the local industry. Secondly, Bombardier and its success in winning contracts of late for rapid transportation concerns has been another bright spot in the local manufacturing sector. Thirdly, vibrant mining and mineral exploration activity in Northwestern Ontario is certainly a benefit to Thunder Bay's economy. With high commodity prices in this sector, spin-offs are being accrued to Thunder Bay. Finally, the emerging knowledge sector of the economy bodes well for Thunder Bay's future. However, it will take some time for knowledge sector jobs to replace those lost in the forest products industry.

Out-Migration From Thunder Bay Persists

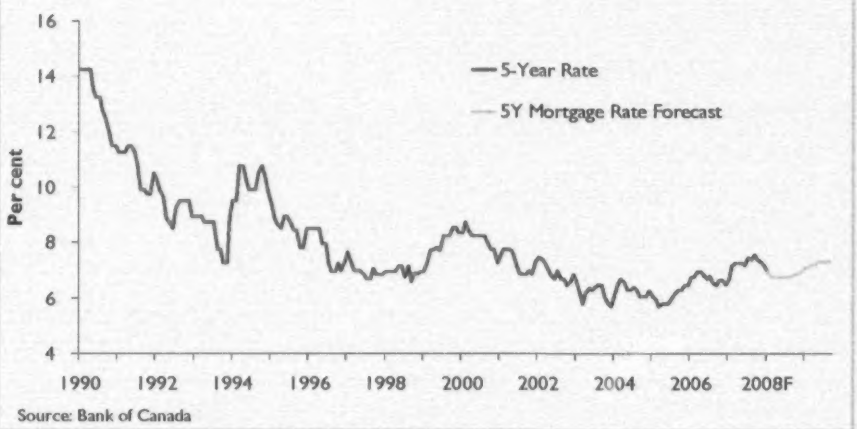
Out-migration and net negative natural increase persist in Thunder Bay. The latest data for the CMA suggests both demographic indicators have been negative for at least the last three years. Despite this recent trend, a slight population increase for Northwestern Ontario's largest market was registered between 2001 and 2006 according to the 2006 Census. Net in-flows from the districts around Thunder Bay provided the chief contribution to this increase. Net migration is anticipated to stay negative in 2006-2007, and also in 2007-2008 although out-migration will moderate as a gradually improving economy tempers the movement out of Thunder Bay.

Mortgage Rates Will Remain Relatively Flat

Posted mortgage rates eased by about 50 basis points in the first four months of this year, although rates in late April were 30 to 35 basis points higher than they were 12 months prior. Mortgage rates are expected to trend marginally lower throughout 2008, but will be within 25-50 basis points of their current levels. For 2009, posted mortgage rates will begin to drift up slightly as the year progresses. For 2008 and 2009, the one-year posted mortgage rate is forecast to be in the 6.50-7.50 per cent range, while three and five-year posted mortgage rates are forecast to be in the 6.75-7.50 per cent range.

Figure 4

Mortgage Rates Will Remain Relatively Flat



Source: Bank of Canada

Forecast Summary
Thunder Bay CMA
Spring 2008

	2005	2006	2007	2008f	% chg	2009f	% chg
Resale Market							
MLS® Sales	1,562	1,539	1,593	1,601	0.5	1,521	-5.0
MLS® New Listings	2,788	3,015	2,631	2,684	2.0	2,764	3.0
MLS® Average Price ($)	125,303	127,464	129,734	132,328	2.0	134,313	1.5
New Home Market							
Starts:							
Single-Detached	179	157	185	170	-8.1	165	-2.9
Multiples	48	8	64	50	-21.9	50	0.0
Semi-Detached	4	4	8	10	25.0	10	0.0
Row/Townhouse	0	4	24	0	n/a	0	n/a
Apartments	44	0	32	40	n/a	40	0.0
Starts - Total	227	165	249	220	-11.6	215	-2.3
Average Price ($):							
Single-Detached	222,587	226,633	239,933	247,100	3.0	252,000	2.0
Median Price ($):							
Single-Detached	215,000	215,000	230,000	239,200	4.0	246,400	3.0
New Housing Price Index (% chg) (Thunder Bay-Sudbury)	1.7	1.7	4.3	4.5	-	3.5	-
Rental Market							
October Vacancy Rate (%)	4.6	4.9	3.8	3.3	-0.5	3.0	-0.3
Two-bedroom Average Rent (October) ($)	689	696	709	717	-	730	-
Economic Overview							
Mortgage Rate (1 year) (%)	5.80	6.30	7.35	6.95	-0.40	6.83	-0.12
Mortgage Rate (5 year) (%)	6.30	6.45	7.54	7.01	-0.53	6.97	-0.04
Annual Employment Level	63,800	61,500	63,000	64,600	2.54	65,500	1.39
Employment Growth (%)	1.3	-3.6	2.8	0.7	2.1	0.1	-0.6
Unemployment rate (%)	7.1	7.7	6.7	6.2	-	6.4	-
Net Migration [1]	-428	-747	-250	-100	-60	100	-200

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over
(1) 2007 migration data is forecasted

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